



## Q2 2016 Earnings Conference Call Thursday, August 4, 2016

### **PARTICIPANTS**

#### **Motorola Solutions Executive Participants**

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**Chris Kutsor** – Director, Investor Relations  
**Greg Brown** – Chairman and Chief Executive Officer  
**Gino Bonanotte** – Executive Vice President and Chief Financial Officer  
**Bruce Brda** – Executive Vice President, Products and Services  
**Jack Molloy** – Executive Vice President, Worldwide Sales

#### **Other Participants**

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**Pierre C. Ferragu** – Analyst, Sanford C. Bernstein & Co. LLC  
**Kulbinder S. Garcha** – Analyst, Credit Suisse Securities (USA) LLC (Broker)  
**Matthew Cabral** – Analyst, Goldman Sachs & Co.  
**Tavis C. McCourt** – Analyst, Raymond James & Associates, Inc.  
**Keith Housum** – Analyst, Northcoast Research Partners LLC  
**Timothy Patrick Long** – Analyst, BMO Capital Markets (United States)  
**Stan Kovler** – Analyst, Citigroup Global Markets, Inc. (Broker)  
**Brian Yun** – Associate Analyst, Deutsche Bank Securities, Inc.  
**Andrew DeGasperi** – Analyst, Macquarie Capital (USA), Inc.  
**Ashwin X. Kesireddy** – Analyst, JPMorgan Securities LLC  
**Ben J. Bollin** – Analyst, Cleveland Research Co. LLC

### **MANAGEMENT DISCUSSION SECTION**

**Operator:** Good afternoon and thank you for holding. Welcome to the Motorola Solutions Second Quarter 2016 Earnings Conference Call. Today's call is being recorded. If you have any objections, please disconnect at this time. The presentation material and additional financial tables are currently posted on the Motorola Solutions Investor Relations website.

In addition, a replay of this call will be available approximately three hours after the conclusion of this call over the internet. The website address is [www.motorolasolutions.com/investor](http://www.motorolasolutions.com/investor). At this time, all participants have been placed in a listen-only mode and the line will be open for your questions following the presentation.

I would now like to introduce Mr. Chris Kutsor, Director of Investor Relations. Mr. Kutsor, you may begin your conference.

#### **Chris Kutsor, Director, Investor Relations**

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Thank you. Good afternoon. Welcome to our 2016 Second Quarter Earnings Call. With me today are Greg Brown, Chairman and CEO; Gino Bonanotte, Executive Vice President and CFO; Bruce Brda, Executive Vice President, Products and Services; and Jack Molloy, Executive Vice President, Worldwide Sales. Greg and Gino will review our results along with commentary and Bruce and Jack will join for Q&A.

We have posted an earning presentation and news release at [motorolasolutions.com/investor](http://motorolasolutions.com/investor). These materials include GAAP to non-GAAP reconciliations for your reference.

A number of forward-looking statements will be made during this presentation and during the Q&A portion of the call. These statements are based on current expectations and assumptions that are subject to a variety of risks and uncertainties. Actual results could differ materially from these forward-looking statements.

Information about factors that could cause such differences can be found in today's earnings news release, in the comments made during this conference call, in the Risk Factor section of our 2015 Annual Report on Form 10-K and in our other reports and filings with the SEC. We do not undertake any duty to update any forward-looking statement.

I'll now turn it over to Greg.

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**Greg Brown, Chairman & Chief Executive Officer**

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Thanks, Chris. Good afternoon, and thanks for joining us today. I'd like to make a few opening comments about the second quarter and the overall business before Gino takes us through the results and outlook.

First, Q2 was a strong quarter of earnings, cash flow generation and backlog growth compared to last year. With a growing Product backlog and healthy pipeline, we're well positioned for the second half of the year and we'll continue to focus on revenue and operational efficiency.

Second, our Services business continues to execute, growing 26% including Airwave, while our managed and support services business grew 4% organically and we're proceeding full steam ahead with the integration of Airwave after recently receiving unconditional clearance from the UK Competition and Markets Authority just a few weeks ago.

And finally, today we announced a \$2 billion increase to our share repurchase authorization. This follows \$11.6 billion in total repurchases over the past five years, driving a 51% share count reduction. The steady improvement in our business and continued managed and support services growth will generate strong earnings and cash flow driving total shareholder return.

I'll now turn the call over to Gino to provide additional details on our second quarter results and outlook before returning to provide some closing thoughts.

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**Gino Bonanotte, Executive Vice President & Chief Financial Officer**

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Thank you, Greg. Second quarter results include revenue of \$1.4 billion, up 5% versus last year, including Airwave revenue of \$146 million, GAAP operating earnings of \$224 million, non-GAAP operating earnings of \$324 million, or 22.7% of sales, up 370 basis points from the year-ago quarter.

GAAP earnings per share from continuing operations were \$0.61 compared \$0.72 in the second quarter of 2015. Non-GAAP EPS was \$1.03, which represents a 51% year-over-year increase. The earnings per share growth was driven by Airwave, continued cost savings and reduced share count.

Ending backlog was up \$2.2 billion from a year ago. Services is up \$2.1 billion on \$1.6 billion from Airwave, as well as managed and support services growth in North America. The Product segment

backlog was up \$64 million, also driven by North America. For the remainder of call, we will reference non-GAAP financial results including those in our outlook.

As expected, Q2 Product sales were down 8% from the prior-year at \$801 million. The majority of the decline was due to weakness in Latin America, parts of Europe and China. Q2 Product segment operating income was \$176 million, or 22% of sales, up 170 basis points versus last year, driven by steady margins and a lower cost structure. Product segment backlog ended the quarter at \$1.3 billion, up \$64 million from last year and up \$82 million sequentially. Deal flow and orders have been solid, particularly in North America, supporting our expectations for product revenue growth in the second half.

Turning to Services, Q2 Services revenue was \$629 million, up 26% percent including Airwave. In Q2, managed and support services comprised approximately 30% of total MSI revenue. Organically, managed and support services grew 4% during the quarter.

Services operating income was \$148 million or 23.5% of revenue, up 670 basis points from the prior-year. Services backlog ended at \$6.9 billion, up \$2.2 billion versus last year. The backlog growth is attributed to \$1.6 billion of Airwave in EMEA and an increase of over \$500 million in North America. Sequentially, Services backlog decreased \$214 million, including a \$170 million FX adjustment related mostly to the British pound.

Total OpEx from continuing operations was \$362 million, down \$31 million or 8% from the year-ago quarter, driven primarily by continued cost reduction activities. Other income and expense was \$57 million compared to \$39 million in the year-ago quarter. Net interest expense was \$54 million compared to \$39 million a year ago.

Q2 operating cash flow was \$292 million, an increase of \$143 million over the prior year, driven by improved working capital and higher earnings. Free cash flow was \$201 million. We ended Q2 in a net debt position of \$3.5 billion. We repurchased \$555 million of stock during the quarter at an average price of \$68.37. And finally, we paid dividends of \$72 million in the quarter.

Turning to our outlook, we expect Q3 sales growth of 6% to 7%, including \$130 million from Airwave. We expect Q3 non-GAAP EPS between \$1.17 and \$1.22. Our view of the full year outlook remains unchanged. Revenue growth of 5% to 7% and non-GAAP EPS of \$4.45 to \$4.65. Operating expenses of approximately \$1.45 billion, a reduction of \$120 million inclusive of the additional Airwave OpEx.

Full year effective tax rate is expected to be approximately 33%. Operating cash flow of approximately \$1.1 billion to \$1.2 billion and \$4.75 to \$5 of free cash flow per share for the full year.

Moving to regional results, North America performed as expected, with revenue down slightly at 1% versus a strong quarter a year ago. Demand for our managed and support services continues to drive multi-year contract wins, while backlog growth in both Products and Services, supports our expectation of growth in the region in the second half and for the full year.

As expected, Latin America was down 36%, or \$34 million, on continued challenging macroeconomic conditions and iDEN declines. While we expect the region to remain challenged, the business is stabilizing and we are encouraged with a recent large order of \$28 million. EMEA was up 47% inclusive of Airwave. Excluding Airwave, the region was down 17% primarily related to lower Norway installation revenue and weakness in Eastern Europe. Asia Pac declined 2% on currency headwinds and a decline in China. Excluding currency, Asia Pac grew 1% driven primarily by growth in Australia.

I'd also like to share some brief segment highlights. In our Products segment, we continue to innovate with several key product launches and customer-focused solutions, including the launch of several new radios, including a low cost digital Vertex radio addressing the low end of the channel, as well as a new high tier TETRA radio. We also announced the addition of the WAVE 7000 solution to our software portfolio. WAVE 7000 software enhances workgroup communication with high availability push-to-talk, linking users across LMR and LTE networks regardless of radio, smartphone, tablet or other device.

In our P25 ASTRO portfolio, we won several large systems deals, including a \$200 million multi-county award in the Richmond, Virginia area. We also received a \$44 million order from a North America utility customer and in July, we won a \$28 million order in Latin America, the first deal in the region over \$10 million in the past six quarters.

In our Services business, we launched WAVE Cloud Connect in Australia. This SaaS cloud-based solution leverages WAVE 7000 to deliver broadband based secure push-to-talk communications, connecting LMR networks with smartphones and tablets.

In our managed and support services business we are proceeding with the integration of Airwave following the unconditional clearance from the UK's Competition and Markets Authority. We secured many large services deals, including a \$19 million renewal to extend services with a key customer in Australia and in the command center, we received multiple orders in North America for software, services, and applications providing customers with advanced analytics and operational intelligence.

I would now like to turn the call back over to Greg.

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**Greg Brown, Chairman & Chief Executive Officer**

Thanks, Gino. Let me just close with a couple of quick thoughts. In Q2, we executed well, both financially and operationally. In addition to growing sales, earnings and cash flow, we launched several new products and continue to invest in growing the business.

Looking forward, I'm encouraged with our progress heading into the second half of the year. Backlog is up in both Products and Services. North America remains solidly on course. Latin America is showing signs of stabilizing and we expect the Products segment to return to revenue growth.

And finally, we remain firmly committed to growing the earnings and cash flow of our business. This commitment includes being responsible stewards of capital and is reflected in our capital return history and today's announcement of a \$2 billion increased authorization. Driving continued durable earnings and strong cash flow from our business enables financial flexibility for the further return of capital, strategic acquisitions and organic innovation.

And with that, I'll now turn it back over to Chris.

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**Chris Kustor, Director, Investor Relations**

Thanks, Greg. Before we begin taking questions, I would like to remind callers to limit themselves to one question and one follow up to accommodate as many participants as possible. Operator, would you please remind our callers on the line how to ask a question?

## **QUESTION AND ANSWER SECTION**

**Operator:** The floor is now open for questions. [Operator Instructions] Thank you. Our first question is coming from Pierre Ferragu with Bernstein. Please go ahead. Pierre, your line is open. Do you have us on mute?

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>:** Hello. Can you hear me?

**<A – Gino Bonanotte – Motorola Solutions, Inc.>:** Yes. We can now, Pierre.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>:** Okay. Thank you. Sorry for that. Thanks for taking my question. So I just wanted to make sure I get your guidance for Q3 and what your full-year guidance implies for Q4, right. So am I right thinking that your organic growth in the third quarter would be still slightly negative, but it's reasonable to expect that you will be posting positive organic growth year-on-year in Q4? And then I'd have a very quick follow-up on gross margins. So you delivered a very good improvement in gross margins sequentially this quarter. If you could give us some color that what were the drivers behind that? And whether we should expect continued improvement in gross margin in the second half of the year? Thank you.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Yeah, Pierre, on Q3 and second half full year outlook, we think it's supported by the fact that product backlog is up, both sequentially and annually. To your point, we expect products revenue to improve in Q3 and return to growth in Q4. We mentioned the fact that Latin America is stabilizing. We had a \$28 million order, the largest in four years and we do expect organic growth to return in the second half. On gross margins, I'll turn it to Gino.

**<A – Gino Bonanotte – Motorola Solutions, Inc.>:** Yes. On gross margins, Pierre, we've seen an improvement in gross margins as expected, driven by the Services segment. Margins remain constant in the Product segment and the Services return to the mid-30s as we've talked about for a couple of quarters, once the systems integration activity related to one specifically large project subsided, it returned to mid-30s for gross margins.

**<Q – Pierre Ferragu – Sanford C. Bernstein & Co. LLC>:** Great. Thanks a lot.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Thanks, Pierre.

**Operator:** Thank you. Our next question comes from Kulbinder Garcha with Credit Suisse. Please go ahead.

**<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>:** Thanks. I have just a couple of questions. One just on second half revenues. If you hit your Q3 guidance, you're going to have to grow in the mid-20s or close to that, I think, sequentially to your full year number. *On just the visibility you have around Q4, is that [indiscernible] (17:28) by the backlog as well or is it just that your Q3 guidance is fairly conservative.* Any comments around that would be helpful. And then on the \$2 billion extra buyback, what's the cadence of how you will deploy that? Is that something we think about over the six quarters? Just how you think about that that would be helpful. Thanks.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Yeah, Kulbinder, I think that our view of full year is supported by both backlog improvement in both Product and Services. We especially like the fact that we expect and anticipate Product revenue to improve significantly in Q3 and return to growth in Q4. When you de-layer that, we believe the business organically returns to the growth in the second half. I think it's

a combination both of backlog and aged backlog visibility and the pipeline that Molloy and the worldwide team see at this point.

In terms of the share repurchase authorization, we have \$400 million left in the authorization. We bought back \$555 million in Q2. In composite over the last five years, we have repurchased 11.6 billion as I mentioned, a 51% reduction in share count at an average price of \$57.58. We had previously referred to the fact that on an annual basis, we expected \$750 million to \$1 billion in share repurchase for this fiscal year. I think that remains unchanged. I think the higher volume in Q2 represents what we found to be opportunistic and we seized on that opportunity.

**<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>:** Thank you.

**Operator:** Thank you. Our next question comes from Matthew Cabral with Goldman Sachs. Please go ahead.

**<Q – Matthew Cabral – Goldman Sachs & Co.>:** Thank you. I wanted to dig into the growth in managed and support services. And if you could just help us understand how you're going after that opportunity from a go-to-market perspective, as well as if these are largely greenfield opportunities or if these are competitive take-outs that you're seeing. And then just from a margin perspective, any sense for how this business stacks up relative to the wider corporate average would be helpful?

**<A – Bruce Brda – Motorola Solutions, Inc.>:** Yeah, this is Bruce Brda. I'll take your question. The growth in managed and support was driven heavily by the Airwave introduction into our portfolio, but we also saw organic growth in managed and support services as well in the mid-single digits. That's comparable to the growth we achieved through 2015 as well. Managed and support is really attached to our Product. So there isn't competitive takeaways. This is driving up penetration into our install base and attaching managed and support services to more new deals as well. On a going forward basis, as Gino mentioned with the Norway integration project behind us, we would expect margins to be comparable in the mid-30s on a going forward basis.

**<Q – Matthew Cabral – Goldman Sachs & Co.>:** Thank you. And then on operating expenses, clearly, that's been a big focus for the company over the past few years. But as we start thinking about looking out beyond 2016, do you feel there's still room for cost takes-outs from current levels or after you've completed the \$120 million that you're going to do this year? I guess any color on how you're thinking about managing costs in more of a normalized environment would be helpful.

**<A – Greg Brown – Motorola Solutions, Inc.>:** Yeah, I think that the team has done a fantastic job as we've simplified the organization, streamlined the portfolio and focused on what we do well from G&A to manufacturing rationalization to real estate footprint across the board. And Brda, in particular, platforming R&D has done a great job.

I think I'd make two points. We always believe you can do more. But, as we think about 2017, we certainly are not expecting an increase in BGM OpEx against the current profile of the business. That's the way I would think about it at this point in time.

**<Q – Matthew Cabral – Goldman Sachs & Co.>:** Thank you.

**Operator:** Thank you. Our next question comes from Tavis McCourt with Raymond James. Please go ahead.

**<Q – Tavis McCourt – Raymond James & Associates, Inc.>** Hey, guys. I've got a couple of questions so let me get them out and then you can answer. First, given the decline in the pound, a couple of issues related to that. Can you talk about what product backlog trends would have been sequentially and year-over-year under a constant currency? Would that be growing sequentially and year-over-year? And also on the pound decline, is the \$146 million of Airwave revenue this quarter relative to the \$130 million expectation for next quarter, is that pound related or is there variability in that revenue stream?

And then second, Greg, on FirstNet, I understand kind of even the uncertainties are uncertain at this point. But, I guess, any color you'd like to give on that. And then, specifically, I guess, Rivada Networks has an agreement with a number of industry players, Motorola not one of them. And what I'm wondering in that regard is given your share of embedded systems on P25, is there a conceivable way to integrate with those systems without having Motorola involved in some form or fashion? Thanks.

**<A – Greg Brown – Motorola Solutions, Inc.>** I'll let Gino start with the pound.

**<A – Gino Bonanotte – Motorola Solutions, Inc.>** Sure. So a couple of comments on the pound. The impact of the pound to backlog is most visible in Services' multiyear duration. So, as we mentioned earlier, \$170 million revaluation is included in that. Keep in mind as well as we – revenue Airwave, the fixed contract in Airwave that is a decline for the Services backlog as well. So those were two elements that went into that \$210 million sequential decline in Services.

With respect to the \$146 million to \$130 million, that is entirely due to the pound. There's no change to the contract. The contract is fixed. We continue to expect \$450 million of revenue for the full year. The prior estimate we gave was a prudent conservative estimate based on a couple of things. Uncertainty around Brexit and completion of the purchase accounting and the deferred revenue calculation. So our expectation continues to be \$450 million of revenue. The contract is fixed and \$146 million to \$130 million is entirely a result of the pound.

**<A – Greg Brown – Motorola Solutions, Inc.>** And, Tavis, as it relates to FirstNet, what I would say is we've obviously participated in the RFP response. I think we're very well positioned for a combination of reasons. Number one is our expertise in public safety. Number two, is our go-to-market strength and customer intimacy and sales force, and third, I think a little bit in reference to your question, I think the unique ability for us to be able to interconnect Public Safety LTE to the land mobile radio systems that are installed here in the U.S.

As you know, we don't expect any really FirstNet revenue expectations for this year or next year but I like the position that we have. And I like how we have responded to the RFP and we'll leave it up to the customer to decide what the right architecture and consortium is to go forward.

**<A – Gino Bonanotte – Motorola Solutions, Inc.>** Okay. Thank a lot.

**<A – Greg Brown – Motorola Solutions, Inc.>** Thanks, Tavis.

**Operator:** Thank you. Our next question comes from Keith Housum with Northcoast Research. Please go ahead.

**<Q – Keith Housum – Northcoast Research Partners LLC>** Good afternoon. Hey, Bruce. Maybe you can fill us in in terms of the managed and support services? I think you guys said 4% growth for the quarter. Can you break out versus the U.S versus the Rest of the World?

**<A – Bruce Brda – Motorola Solutions, Inc.:** Yeah, in Managed and Support, we've been experiencing pretty consistent growth throughout all of the regions. It's heavier in North America but we've got great growth across all the regions in managed and support. That's on the organic side obviously. When you add in Airwave, it heavies up in EMEA but it's consistent across all regions.

**<Q – Keith Housum – Northcoast Research Partners LLC>:** Okay. Great. And then if we just talk about the LTE environment, have there been any significant developments around the world? Obviously, you guys are working on the two Middle East contracts but are there any RFPs that are going on – outside of FirstNet, of course, that would give you some encouragement the LTE environment's growing?

**<A – Greg Brown – Motorola Solutions, Inc.:** I would say outside of the big four projects, LA, London, and the two in the Middle East, of course, FirstNet being the fifth, I would describe the Public Safety LTE opportunity as a bit fluid and slow. We don't expect any meaningful revenue. I talked about FirstNet already. We don't expect any meaningful revenue this year or next year on ESN in London either. So, I think it's fairly methodical and measured. We're focused on implementing the big four. We're focused on winning FirstNet, and I think that as time has gone on there's also an increased realization that land mobile radio will be around for a long, long time. And the interconnection between Public Safety LTE, which is additive to the installed base of LMR is pretty meaningful. But that's the way I would describe it. Our revenue 2015 and 2016 is comparable, about \$130 million and I think I would expect even though we're not guiding into next year I think it would be – our LTE revenue would be comparable in 2017 as well.

**<Q – Keith Housum – Northcoast Research Partners LLC>:** Great. Thank you.

**<A – Greg Brown – Motorola Solutions, Inc.:** Thank you.

**Operator:** Thank you. Our next question comes from Tim Long with BMO Capital Markets. Please go ahead.

**<Q – Tim Long – BMO Capital Markets (United States)>:** Thank you. Two questions, if I could. First, back to the Services, a big focus for the company and Airwave was a nice move. Greg, could you talk a little bit about other potential buy opportunities or whether you can build it or other opportunities you think that will be out there for you to either organically or inorganically grow that business?

And on to the Products side, it sounds like, overall for public safety still you guys are in the early stages of body cameras and other things, could you just talk a little bit about maybe some other new products that you think could kind of move the needle a little bit more in the next twelve months? Thank you.

**<A – Greg Brown – Motorola Solutions, Inc.:** Yeah. On Services, we love the Airwave acquisition. We're especially appreciative and pleased with the unconditional clearance from CMA. We're always on the look or lookout for other what we refer to as "mini Airwaves," if they're there. I think there might be some, but they're not nearly as material or of the revenue density as Airwave. Having said that, I think Molloy and Brda are teaming well to get a lot of the managed and support services growth organically, better sales execution, software user agreements, multi-year maintenance, and I think Jack's team has done a really good job attending to that.

**<A – Bruce Brda – Motorola Solutions, Inc.:** On the second part of your question, Tim, this is Bruce Brda, with respect to body-worn video, we really have two portions of our solution here. One is the evidence management solution or the back end that stores the digital evidence, and we've taken an approach where we've integrated that in with our other command center software assets, call-taking, CAD, records, counsel, et cetera. And then on the device itself, with the demands on the officer for on-



body real estate we've taken an integrated approach, an integrated voice, so remote speaker mic, with video recording as well as radio control on a single platform and we think that gives us a unique advantage in the marketplace. Having said that, this is really a try before you buy market and while we're engaged with a number of customers around the U.S. and some internationally as well, and we made initial shipments in Q2, we don't expect the revenue for 2016 to be material with body-worn video.

**<Q – Tim Long – BMO Capital Markets (United States)>:** Okay. Thank you.

**Operator:** Thank you. Our next question comes from Stanley Kovler with Citi. Please go ahead.

**<Q – Stan Kovler – Citigroup Global Markets, Inc. (Broker)>:** Thanks for taking my question. I just wanted to ask about backlog and specifically in Services. So if I back out the FX impact you referenced for Services, and there's a little bit of rounding in the \$8.2 billion total that you quoted but Services looks like it may have been flat to perhaps down a little bit quarter-over-quarter. Can you help us understand how the pipeline looks? You quoted specifically some wins that you've had regionally in North American and other places. How does the second half look in terms of the buildup in backlog and where do you think you'll exit the year? Thanks.

**<A – Gino Bonanotte – Motorola Solutions, Inc.>:** Sure. So just recapping Services backlog, Services backlog sequentially was down \$210 million. \$170 million of that is in adjustment to our backlog position based on the pound. And as we recognize the \$146 million of revenue, in Q2, against the fixed Airwave contract, the result of those two was a decrease in sequential backlog.

Obviously, absent those two we did have sequential backlog growth in Services. We did grow managed and support services specifically 4% organically. So from a backlog perspective, heading into the second half with respect to Services, we're comparable to slightly ahead of where we were in the prior year.

**<Q – Stan Kovler – Citigroup Global Markets, Inc. (Broker)>:** Thanks. And if I can just follow-up, as you look out at the environment for public safety especially with what's been going on in Europe, what does your pipeline look like on from a Product perspective and in terms of actual Products and perhaps this is on both hardware and software that you're talking to with customers out there and what's the urgency level and time-to-market of any kind of deployments there?

**<A – Jack Molloy – Motorola Solutions, Inc.>:** So, Stanley, this is Jack. I think a couple – maybe two comments on Europe particularly in Europe but our comps from an overall perspective as we start to look at the second half of 2016, our comps eased due to the Norway roll off.

To your point around security, in Europe, in fact, I just talked to our Head of Sales in EMEA the other day on this. There's certainly border security issues that we think can stimulate both Product and Service revenue opportunities but they're not moving super rapidly. There's funding around them and there's governance and things like that. But we definitely see business in the second half picking up largely due to comps.

**<A – Greg Brown – Motorola Solutions, Inc.>:** I do also think though from an overall tone standpoint in addition to what's going on in Europe and the climate for policing here in the U.S., we've always said mission-critical public safety is high on the priority list. It's as high as it's ever been and it's reinforced by some of the unfortunate circumstances that are going on.

What I would say also anecdotally while you did ask about Europe, I think we've seen some increased interest particularly around the older systems here in the U.S. with a sensitivity around encryption and protected police communications. So systems here in the U.S. that might be older, longer in the tooth, if

you will, where the bad guys may unfortunately have the opportunity with not too much effort to listen in. I think some of those communities are engaging in those conversations with us, making encryption and secure communications a higher priority vis-à-vis an upgrade and a modernization that I think over time will be a positive demand driver.

**Operator:** Thank you. Our next question comes from Vijay Bhagavath with Deutsche Bank. Please go ahead.

**<Q>: Brian Yun – Deutsche Bank Securities, Inc.:** Hi. This is Brian on for Vijay. Thanks for taking the question. Could you give us some visibility around expectations of geographic demand in the back half of 2016 and then maybe into 2017? So any detail around what you're seeing in China, Eastern Europe or Latin America? Thanks.

**<A – Jack Molloy – Motorola Solutions, Inc.:** Okay. Brian, it's Jack. So I think as we look at the second half, obviously it's not appropriate to comment on 2017 right now. But in general to give you some regional color, North America in the second half, which is obviously our biggest region, as we said all along, North America will grow in 2016. Product pipeline, as well as Services pipeline look strong.

We talked about Latin America, and again, Latin America is less than 5% of our overall revenue. Again, less pressure in the second half due to comps. We also believe we've de-risked a lot of the large projects there. And, I think on the bright side, we see Southern Latin America improving. We see the business in Mexico stabilizing. And I think the big point there is in spite of some of the headwinds we faced in the last 12 months, we've maintained our investment in the region. And we think we've created a good level of demand that we'll fulfill here in the future.

When we think about EMEA, which I just commented on, Europe, Middle East and Africa, again, our comps ease in Europe. There is a fair level, even in spite of oil, in the Middle East, the business remains strong. I think one point of emphasis here would be in Africa. Africa is an area, really what I would say is an area that we've invested in. We're investing in more significantly in go-to-market. We've shored up kind of our lower end of our portfolio product that we think is very attractive in the African market. And then if we – as we start to pivot to Asia Pac, Asia Pac is actually – it's been a good news story. In constant currency last year it grew 8%. It will be up this year in constant currency, particularly, and again as Gino highlighted in the opening in Australia. I will tell you China, China is less than 3% of our Company's revenue. 2016 will be a challenging year. But we've got really suppressed expectations candidly about China, just due to some of the preference that I think the Chinese government has towards some of the indigenous providers. So, I think that's probably a summary of the fly over as we see it regionally around the world.

**<Q>: Brian Yun – Deutsche Bank Securities, Inc.:** Okay. Great. Thanks.

**Operator:** Thank you. Our next question comes from Andrew DeGasperi with Macquarie. Please go ahead.

**<Q – Andrew DeGasperi – Macquarie Capital (USA), Inc.:** Yeah, thanks. First, I guess I wanted to ask what timing do you expect as far as revenue recognition for the Richmond P25 project that you won. And secondly, if we look at buybacks guidance that you gave the last quarter, you obviously bought a lot of stock in the second quarter. Should we be expecting – I mean, we should be planning for a significant slowdown at this point in the second half, is that correct? Thanks

**<A – Greg Brown – Motorola Solutions, Inc.:** I'll let Jack answer Richmond first.

**<A – Jack Molloy – Motorola Solutions, Inc.:** Andrew, on Richmond, it's a multiyear revenue expectation. We'll have a small amount in the back half of this year. But it's again, it's a multi-year as a lot of these big milestone based projects are.

**<A – Greg Brown – Motorola Solutions, Inc.:** And, Andrew, on the share repurchase, we guided annual repurchase of \$750 million to \$1 billion. We were out of the market largely in Q1 because of the Airwave M&A activity. We were opportunistic given what we thought were pretty attractive levels in Q2. I think our annual guidance remains unchanged of \$750 million to \$1 billion. So, I would just leave it at that and that would be our expectation at this point in time for the full year.

**<Q – Andrew DeGasperi – Macquarie Capital (USA), Inc.:** Great. Thank you.

**Operator:** Thank you. Our next question comes from Rod Hall with JPMorgan. Please go ahead.

**<Q – Ashwin Kesireddy – JPMorgan Securities LLC:** Hi. This is Ashwin on behalf of Rod. Thank you for taking my question. Could you update us on the expectations of FX impact on full year revenue? I think the previous number was \$60 million of FX impact. An update would be great. And can you also comment on your expectations about Product operating margin in Q3 and second half generally? Do you expect to see same seasonal margin trend on the Products, I mean, in Q3 and Q4 like we saw recently?

**<A – Gino Bonanotte – Motorola Solutions, Inc.:** Sure. I'll take the – actually I'll take both of those. The FX question first. Certainly, the FX is included in the guidance we gave for the full year. We said after the – on the Q4 call and Q1 we said we saw at the time based on spot rates headwind of about \$60 million. At this point, we see headwinds in the \$40 million range for the full year. But, again, it's contemplated within the guidance. Specifically, the volatility has been around the pound. And, again, we haven't changed our view of full year revenue for Airwave at \$450 million despite the movement in the pound.

Secondly, on Product gross margins, you can expect to see the same type of seasonality, certainly as the volume increases in Products in the second half of the year.

**<Q – Ashwin Kesireddy – JPMorgan Securities LLC:** Great. Thank you.

**Operator:** Thank you. Our final question comes from Ben Bollin with Cleveland Research. Please go ahead.

**<Q – Ben Bollin – Cleveland Research Co. LLC:** Thanks for taking the question. Good afternoon, everyone. I wanted to go back on this LTE question. Greg, could you talk maybe a little bit to the services and device opportunities you see Motorola addressing with Public Safety LTE? So services, data, devices, voice products, where you think you are there? And then longer-term how you think about the potential risk as LTE voice devices potentially displace terrestrial radio devices? And then I have a follow-up.

**<A – Greg Brown – Motorola Solutions, Inc.:** I think that the PS-LTE opportunity, as I mentioned, is slow to develop. It's certainly a lot slower and less material than we thought three years ago, just to reference a point, or even when the legislation was passed in the Middle Class Jobs Relief Act in 2012 it was U.S.-centric. I think it's for a combination of reasons. Countries have to develop and allocate the spectrum. You've got to line up the appropriate funding. I do think, though, we're very uniquely positioned, positively, better than anybody, quite frankly, and I say that as a reflection of our knowledge and expertise in P25 and TETRA LMR and the complexities and customization that go with that and the interoperability

and interconnection required of LMR platforms, whether they be P25 or TETRA to the additive broadband network that gets deployed.

I think it would span services, some applications, devices, I don't see consumer smartphones replacing mission-critical radios for a whole host of reasons around power management, spectrum, efficiency, group talk, as well as things that are embedded in the 3GPP standard and so many other things that would be required for that to happen. So I think Public Safety LTE is a good opportunity for this company. I think it's additive to our LMR business. I don't think it's substitutional or cannibalizing in the future.

I just don't see that. And I don't think it's a reflection of our head in the sand. I really don't because we push ourselves constantly here and challenge each other. It's a direct reflection of what we're hearing from our customers and it's worth reminding in LA, we are building an LMR system at the same time and updating an LMR systems right now at the same time PS-LTE is being deployed. That's also true in the UK, which you know about the commitment to multiyear fixed price contract with Airwave and the eventual migration to ESN. And we'll see how quickly that happens and in what complementary nature ultimately that gets rolled out in.

And the two Middle East customers, right as we speak, are investing in LMR, and Public Safety LTE and we're getting Service contracts that are multiyear 10 years, 15 years plus. So the customers are speaking and the market is speaking. And we're going to seize on both those opportunities.

So Public Safety LTE is more muted. Again, \$130 million last year, comparable this year. I would guess it's comparable maybe slightly up next year as we round out those implementations but between infrastructure, devices, applications and the interconnection to make the end-to-end system work, I think we're well positioned.

**<Q – Ben Bollin – Cleveland Research Co. LLC>:** Okay. That's really helpful. Thanks. The other question I had is looking at the contracts that you talked about, how do you view the average duration of your contracts? Is there a pattern? Are they extending? There's been this percentage figure you disclosed in our 10-K of the percentage of backlog that you recognize in subsequent years has actually been declining so I'm trying to see if there's a read through there.

And then final piece, curious why Airwave revenue sees no adjustment this year but does see adjustment in future years. Is there something built into that contract that it's booked and recognized this year already so the pound movement doesn't influence it or is there something else that's plays into that? Thank you.

**<A – Greg Brown – Motorola Solutions, Inc.>:** So let me do Airwave and then I'll turn it over to Molloy for contracts. The reason our guidance on Airwave revenue of \$450 million is unchanged despite the contraction in the pound is a tip of the hat to Bonanotte and the finance team because as we modeled he and the team modeled different scenarios right at the close of the acquisition. We knew that there was uncertainty out there with Brexit. We wanted to get the contract in hand; we wanted to get the organization integrated. So Gino and team were prudent. So even with the pound contraction of about 15%, maybe 16%, since that Airwave acquisition was done we're not changing our revenue guidance of approximately \$450 million. At this point, given the spot rate in the pound, we would expect Airwave revenue to grow next year because we have 12 months of revenue recognition versus 10 months.

**<A – Jack Molloy – Motorola Solutions, Inc.>:** Okay, Greg. So I think the second – Ben, to the second question around projects think of – dimensionalize it two ways or two things. Most of these projects won – by the way, projects were proud to have won, the Richmond area that we talked about, we spoke about King County last year, in the State of Iowa. These are essentially multi, you know, we talk about – they could be hundreds of sites and so each and every one of those sites kind of has life story themselves

meaning civil, permitting, environmental, OSHA, those kind of requirements that tend to have longer duration. So we typically think of those things taking anywhere from 12 months to really two years to revenue to get through all the ratable things. That's the first piece of it.

And then typically also within those contracts there's a device component and those things are more actionable and we can work with customers to pull those in for revenue. But ultimately each project has its own dimension. A lot of them are civil and site related, longer duration, the second piece of it is devices. We can typically action those with customers in a quicker fashion.

And then the last element of them is obviously the multi-year support and I think it's noteworthy because it's been brought up a few times today but every – basically every customer in North America and typically in a lot of different countries overseas now doesn't enter into an agreement until they think about at least five years. We've had customers that have gone up 20 years of life cycle and managed and support service agreements. So those obviously have even longer duration in those revenue every year. So I think that probably answers your question.

**Operator:** Thank you. I will now turn the floor back over to Mr. Chris Kustor, Director of Investor Relations for any additional or closing remarks.

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**Chris Kustor, Director, Investor Relations**

Just like to thank everybody for joining us today, and we will talk soon. Thank you, operator.

**Operator:** Ladies and gentlemen, this does conclude today's teleconference. A replay of this call will be available over the Internet in approximately three hours. The website address is [www.motorolasolutions.com/investor](http://www.motorolasolutions.com/investor). We thank you for your participation, and ask that you please disconnect your lines at this time.